ELIGIBILITY MODERNIZATION: THE NEED FOR CHANGE

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"The FSSA welfare system has failed recipients and taxpayers alike, and must be changed."

-GOVERNOR MITCH DANIELS

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This report serves as an analysis of Indiana's eligibility system and utilizes statistics, reports, and stakeholder interviews to document the case for change. A note of appreciation to those who supplied information or assisted in the compilation of this report, including FSSA's Division of Family Resources (DFR), FSSA's Executive Staff, and State Board of Accounts (SBOA). A special note of thanks to everyone at FSSA who provided assistance, including Rich Adams, Zach Main and Jim Dunn.

OVERVIEW

Over the last year, the Indiana Family and Social Services Administration (FSSA) has been assessing the State's public assistance eligibility system and exploring options on how to improve it. As this report will demonstrate, the current system is wrought with errors, inefficiencies, complexity, inconsistency, fraud and abuse. It is a system that is not working for clients in need of essential public assistance programs, such as Medicaid, Temporary Assistance for Needy Families (TANF), and Food Stamps, not working for state employees in the system trying to provide assistance to needy Hoosiers, and not working for taxpayers who must shoulder the expense of a broken public assistance eligibility system.

Earlier this year, FSSA issued a Request for Proposal (RFP) to partner with an outside vendor to assist FSSA in modernizing the system. Governor Daniels appointed an executive interagency Review Team in May of this year to assess the RFP project and to negotiate the terms of a modernized system with the potential partners who responded to the RFP. This report is separate from the Review Team's efforts and does not purport in any way to represent any of the work or direction that is currently underway by that Team or any final solution the Review Team may negotiate. Whatever the results of that effort might be, this report will demonstrate that FSSA must modernize the system to achieve the goals of welfare reform, provide better customer service and access to our clients, and provide a responsible and accountable system for Indiana taxpayers. Finally, this report will offer some ideal attributes of a modernized system, as well as some performance expectations of a successfully modernized system.

THE CURRENT SYSTEM IS WROUGHT WITH ERRORS, INEFFICIENCIES, COMPLEXITY, INCONSISTENCY, FRAUD AND ABUSE.

EXECUTIVE SUMMARY

FSSA serves one out of every six Hoosiers each year through the purchase of health care and social services for low-income individuals and families, senior citizens, people with mental illness or addictions and people with physical or developmental disabilities. FSSA's budget of $6.55 billion comprises 30 percent of the state budget.

FSSA serves Hoosiers in need as a health care financing organization, expending 92 percent of its budget on purchasing services from outside vendors, such as primary care clinics, physicians, hospitals and community mental health centers.

FSSA operates a broken, unwieldy public assistance eligibility system that does not best serve its clients in need of benefits under Medicaid, Temporary Assistance for Needy Families (TANF) and Food Stamps. The following problems within the eligibility system, the portal through which one applies for benefits, must be corrected for the system to work for clients and Hoosier taxpayers:

- **Worst record of welfare reform in the country**

  - In the past decade, Indiana ranked 50th in the percent reduction of citizens on welfare. While welfare caseloads across the country declined by an average of 58 percent between August 1996 and December 2005, Indiana's welfare caseloads declined by a mere 6 percent.

- **High Error Rates**

  - Thirty-five percent of the Medicaid long-term care applications (FFY 2003) and 25 percent of the Temporary Aid for Needy Families (TANF) applications (FFY 2006) approved by FSSA contained errors, either approving applicants who did not qualify and/or providing too little or too much assistance for those who did qualify.

  - FSSA paid Food Stamps recipients $33.9 million more than they were entitled (FFY 2005).

- **Slow processes that fall short of federal guidelines and provide poor customer service**

  - In January 2005, the Medical Review Team (MRT) responsible for examining applicant veracity and depth of disability, had a backlog of more than 13,000 cases.

  - Sixty-five percent of FSSA clients rated their satisfaction with the agency's service as "below average."

  - Fifty-six percent complained that the intake process was "too slow."

- **Inconvenient access**

  - Modern forms of access, such as the Internet and interactive voice response (IVR) systems, are not available to clients.

  - Forty-eight percent of FSSA clients found it difficult to reach a caseworker.

  - County offices are open limited hours.

- **Lack of consistency**

  - One hundred and seven county offices determine and verify eligibility in 107 different ways.

- **Lack of tracking capabilities and proper accounting programs make system ripe for corruption**

  - At least 15 FSSA employees have been arrested since 2002 for fraud-related activities with the average case costing taxpayers $50,000.

  - At least 21 co-conspirators committed fraud against the state for an average case cost of $60,000.

Ultimately, FSSA's system should provide assistance to those most in need and ensure that those who don't qualify for assistance don't receive it.

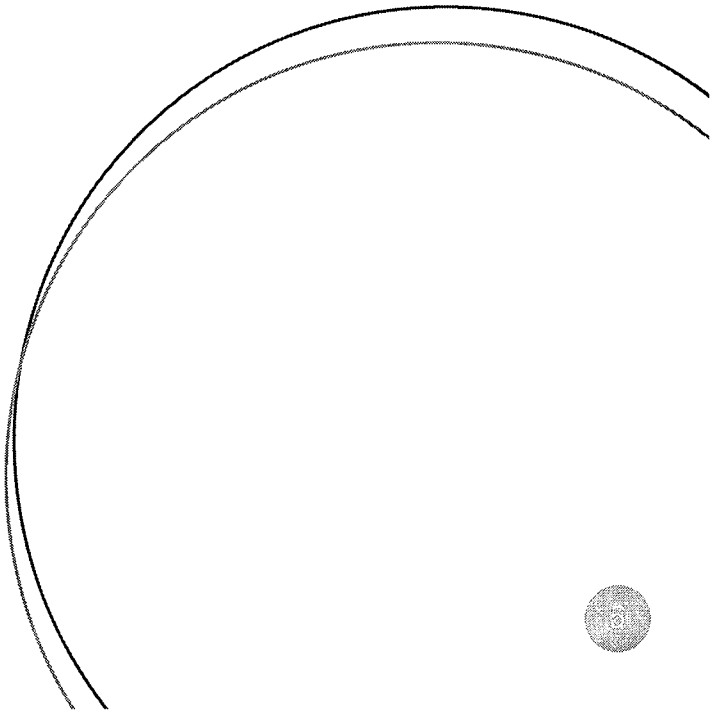
To achieve those goals, FSSA developed general traits as a part of the pending RFP process to create a new model to make the eligibility intake processes for its programs more accurate, user-friendly and effective. The new eligibility intake process must emphasize:

- Customer ease-of-use and convenience
- Quickly linking customers to community and job resources to help them become self-sufficient
- Accountability to taxpayers

A new system also should focus on giving clients more avenues to interact with the agency, which will ultimately reduce the number of mandatory visits to local offices and long waiting times experienced at these offices. Clients should be able to provide information to the agency or retrieve information from FSSA 24 hours a day, seven days a week. Access points should include local county offices, the Internet, an automated and interactive phone system, and local organizations in the community.

By employing modern business processes and technological enhancements, FSSA will be able to serve its clients better by making eligibility determinations more quickly and accurately. As such, FSSA will be able to meet and exceed client expectations and federal guidelines.

FSSA faces an incredible challenge and opportunity to modernize the eligibility system. The status quo is simply not acceptable. A modernized eligibility system is essential to bringing more focus back to the people it was created to serve, while at the same time, developing and implementing appropriate measures to ensure more accountability to taxpayers.



HISTORY OF FSSA AND PUBLIC ASSISTANCE

OVERVIEW

Over the years, Indiana's social services safety net responsible for administering and regulating the delivery of and payment for public assistance and welfare programs has undergone tremendous change. For example, much of the administration of these essential programs in the late 1800s was performed through Indiana's counties and by county staff. Today many, if not all, of these essential programs are administered either through county welfare offices on behalf of the State or entirely at the state level through FSSA.

Today, FSSA operates a budget of $6.55 billion and employs approximately 6,500 people. FSSA finances welfare and social services for one in six Hoosiers in need – depending upon both their economic and severity of conditions through the following care areas:

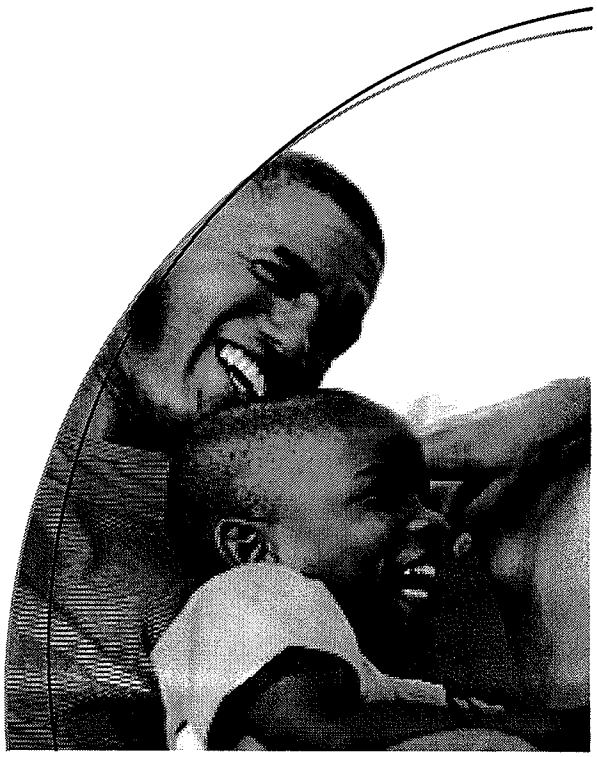
- Office of Medicaid Policy and Planning (OMPP), which specializes in Maternal and Child Health
- Division of Mental Health and Addiction (DMHA)
- Division of Disabilities and Rehabilitative Services (DDRS)
- Division of Aging (Aging)
- Division of Family Resources (DFR)

Among more than 170 programs, FSSA is responsible for such public assistance and welfare programs as Temporary Assistance for Needy Families (TANF), Medicaid and Food Stamps.

• ***TANF*** — The foundation of modern-day welfare rests with the Social Security Act of 1935, under which the federal government enacted the cash assistance program Aid to Families with Dependent Children (AFDC) for poor single mothers and their children. AFDC is now known as TANF and is funded entirely by federal dollars through a block grant administered by states that share in the costs of administering those funds.

• ***Medicaid*** — Today's federal and state-subsidized health care has its roots in the federal government's creation of the Medicaid and Medicare programs in 1965. Medicaid purchases health care and related services for low-income populations, whereas Medicare focuses on people who are age 65 or older or certain persons with disabilities younger than age 65. Medicare is operated by the federal government, and Medicaid is operated by state governments.

• ***Food Stamps*** — First introduced in the 1930s and initially offered through pilot programs, Food Stamps provides for clients' financial assistance to purchase nutritious



food. In 1974, the Food Stamps program was expanded nationwide. Similar to TANF, Food Stamps is funded entirely by federal dollars; however, the state shares in administration costs.

To understand why FSSA is exploring ways in which to improve and modernize the process by which Hoosiers apply for these public assistance and welfare programs, it is essential to consider these needed changes in the recent historical context of the programs' administration. The following is a brief summary of the complex evolution of Indiana's health care and social services programs.

1986 – 1995

Until 1985, Indiana public assistance and welfare programs were administered by the county welfare offices by county employees. In 1986, the state took over the administration of the county welfare staff in response to a lawsuit filed by the County Directors Association regarding the inequities of employee salaries and benefits across counties. As a result,

TO UNDERSTAND WHY FSSA IS EXPLORING WAYS IN WHICH TO IMPROVE AND MODERNIZE THE PROCESS BY WHICH HOOSIERS APPLY FOR THESE PUBLIC ASSISTANCE AND WELFARE PROGRAMS, IT IS ESSENTIAL TO CONSIDER THESE NEEDED CHANGES IN THE HISTORICAL CONTEXT OF THE PROGRAMS' ADMINISTRATION.

eligibility determination for AFDC, Food Stamps and Medicaid was instead determined by state employees. At that time, caseworkers completed eligibility forms and notices only on paper; no processes were automated. At least one state "welfare" office was located in each of the 92 counties.

In 1991, the Indiana General Assembly decided that the many state agencies that helped Hoosiers obtain various social services should be combined. The consolidation of the departments of Mental Health, Public Welfare and Human Services (which included Medicaid) formed FSSA. At the time, FSSA was charged with managing a multibillion dollar budget and employing more than 12,000 people. It was a massive organization that was challenging to manage; funding care for nearly 1 million Hoosiers is a large task.

In 1992, the Indiana General Assembly mandated four distinct divisions within FSSA: Office of Medicaid Policy and Planning (OMPP), Division of Mental Health and Addiction (DMHA), Division of Disabilities, Aging and Rehabilitative Services (DDARS), and Division of Family and Children (DFC).

In 1993, Indiana implemented the Indiana Client Eligibility System (ICES), an integrated computer system that analyzes data and information to determine eligibility. ICES was the initial step toward moving FSSA away from a solely paper-based system.

1996-2004

The national landscape for welfare assistance was radically transformed with the federal government's passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. PRWORA set limits on cash support, mandated even stronger work requirements and gave states more discretion over program design. As part of PRWORA, AFDC's program name was changed to Temporary Aid for Needy Families (TANF) to better reflect the new design and goals of welfare assistance. Because Indiana operated under a waiver that did not expire until 2002, FSSA did not initially have to comply with all of the national rules.

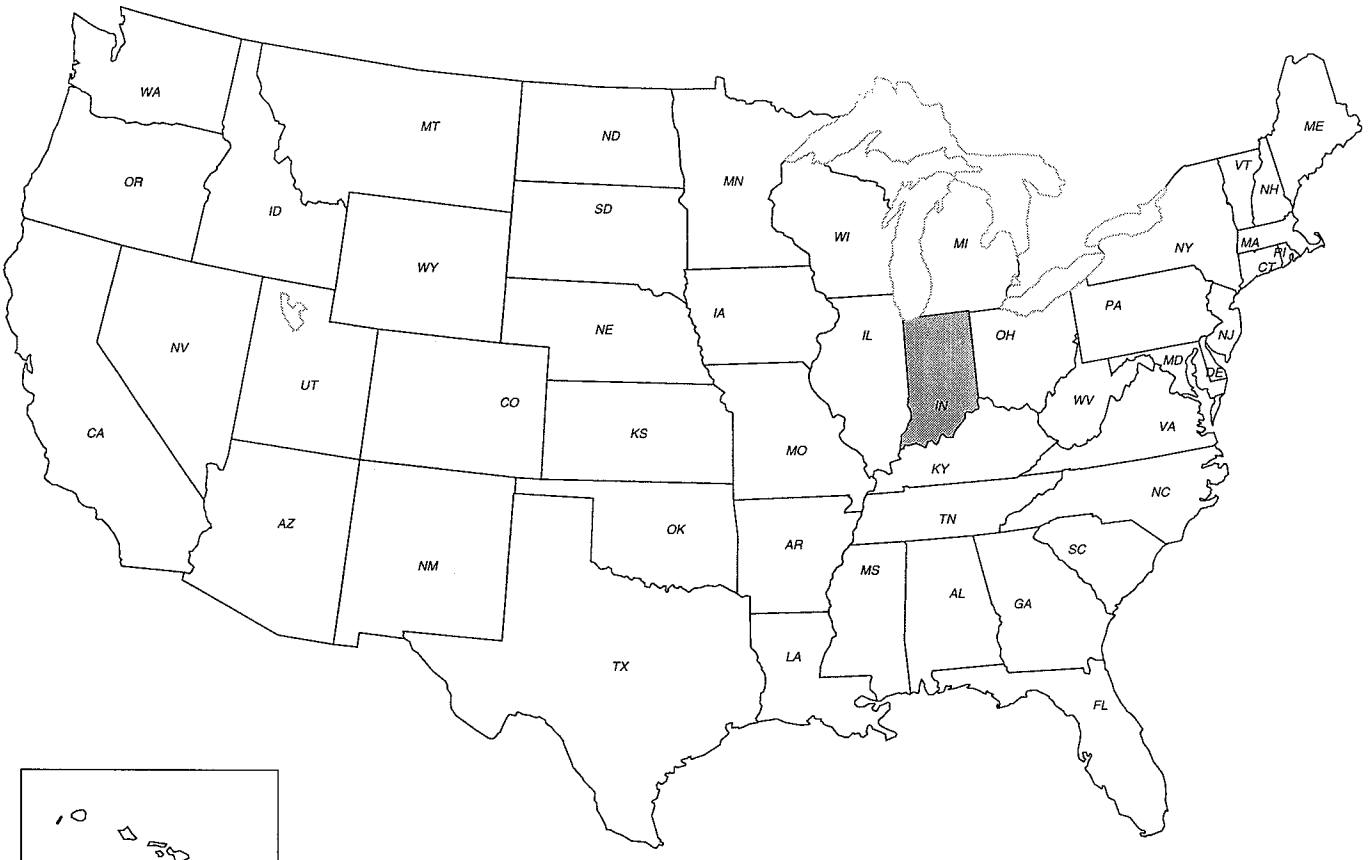
In 2001, Indiana was one of the last 10 states to comply with the federal regulation on the adoption of an electronic benefits transfer (EBT) card. EBT plastic debit cards are utilized by Food Stamps and TANF clients to access allotted financial assistance. The EBT card is an efficient and secure way for the state to distribute benefits to clients. The clients also benefit from the reliability and convenience of the card.

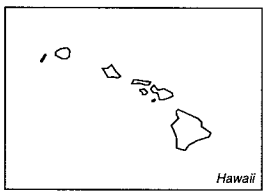
Unfortunately, since 2002, Indiana has failed to make most of the needed modifications to the TANF program to comply with federal regulations, contributing to Indiana falling way behind in welfare reform. The U.S. Department of Health and Human Services reported that welfare caseloads across the nation declined by 58 percent from August 1996 to December 2005. However, Indiana's welfare rolls were reduced by only 6 percent during the same period. The graphics on the following pages shows how Indiana fared in comparison to other states — dead last.

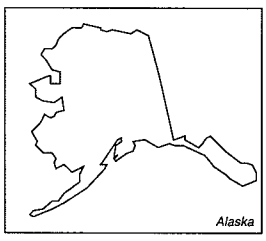
AMERICA'S WELFARE REFORM, 1996 - 2005

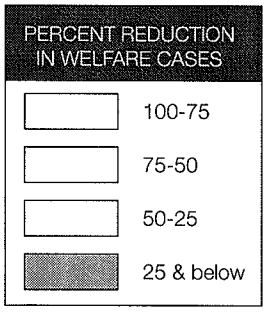
INDIANA'S RANK: 50 — WORST PERCENT REDUCTION IN PEOPLE ON WELFARE

STATE	AUG. 1996 FAMILIES	DEC. 2005 FAMILIES	PERCENT CHANGE	STATE	AUG. 1996 FAMILIES	DEC. 2005 FAMILIES	PERCENT CHANGE
ALABAMA	41,032	20,316	-50.5%	NEBRASKA	14,435	10,016	-30.6%
ALASKA	12,159	3,590	-70.5%	NEVADA	13,712	5,691	-58.5%
ARIZONA	62,404	41,943	-32.8%	NEW HAMPSHIRE	9,100	6,150	-32.4%
ARKANSAS	22,069	8,283	-62.5%	NEW JERSEY	101,704	42,198	-58.5%
CALIFORNIA	880,378	453,819	-48.5%	NEW MEXICO	33,353	17,773	-46.7%
COLORADO	34,486	15,303	-55.6%	NEW YORK	418,338	139,220	-66.7%
CONNECTICUT	57.326	18,685	-67.4%	NORTH CAROLINA	110,060	31,746	-71.2%
DELAWARE	10,585	5,744	-45.7%	NORTH DAKOTA	4,773	2,789	-41.6%
FLORIDA	200,922	57,361	-71.5%	OHIO	204,240	81,425	-60.1%
GEORGIA	123,329	35,621	-71.1%	OKLAHOMA	35,986	11,104	-69.1%
HAWAII	21, 894	7,243	-66.9%	OREGON	29,917	20,194	-32.5%
IDAHO	8,607	1,870	-78.3%	PENNSYLVANIA	186,342	97,469	-47.7%
ILLINOIS	220,297	38,129	-82.7%	RHODE ISLAND	20,670	10,063	-51.3%
INDIANA	51,437	48,213	-6.3%	SOUTH CAROLINA	44,060	16,234	-63.2%
IOWA	31,579	17,215	-45.5%	SOUTH DAKOTA	5,829	2,876	-50.7%
KANSAS	23,790	17,400	-26.9%	TENNESSEE	97,187	69,361	-28.6%
KENTUCKY	71,264	33,691	-52.7%	TEXAS	243,504	77,693	-68.1%
LOUSIANA	67,467	13,888	-79.4%	UTAH	14,221	8,151	-42.7%
MAINE	20,007	9,516	-52.4%	VERMONT	8,765	4,479	-48.9%
MARYLAND	70,665	22,530	-68.1%	VIRGINIA	61,905	9,615	-84.5%
MASSACHUSETTS	84,700	47,950	-43.4%	WASHINGTON	97,492	55,910	-42.7%
MICHIGAN	169,997	81,882	-51.8%	WEST VIRGINIA	37,044	11,275	-69..6%
MINNESOTA	57,741	27,589	-52.2%	WISCONSIN	51,924	17,970	-65.4%
MISSISSIPPI	46,428	14,636	-68.5%	WYOMING	4,312	294	-93.2%
MISSOURI	80,123	39,715	-50.4%				
MONTANA	10,114	3,947	-61.0%	U.S. TOTAL	4,408,508	1,870,039	-57.6%









Since 1996, welfare caseloads across the country have declined by an average of 58 percent. ***However, over a 10-year period, Indiana reported the worst performance.*** Indiana's welfare rolls were reduced by a mere 6 percent between August 1996 and December 2005.

2005 - PRESENT

On Jan. 11, 2005, Governor Mitch Daniels created the Department of Child Services (DCS) – a stand-alone agency responsible for administering child welfare services, including child protective services, adoption, foster care and child support. These services were previously the responsibility of FSSA's Division of Family and Children (DFC). The former DFC was renamed the Division of Family Resources (DFR) to more accurately reflect its modified responsibilities. By executive order and legislative action in 2005 and 2006, other components of what was once DFC have been transferred to other parts of FSSA and state government. Since January 2005, FSSA has made the following modifications to its structure:

- First Steps, a program to help children with disabilities, was transferred to the Division of Disabilities, Aging and Rehabilitative Services (DDARS) within FSSA.

- Effective July 1, 2006, Housing Choice Voucher Program (Section 8), Energy Assistance Block Grant, Weatherization Assistance, Community Services Block Grant, Commodity Supplemental Food, Community Food and Nutrition, Emergency Food Assistance Program, Shelter Plus Care and Migrant Farm Worker Outreach Project programs were transferred to the Office of the Lieutenant Governor as they are a better fit with the core functions of its office. The Lieutenant Governor's office has subcontracted the operations of some of these programs to the Indiana Housing & Community Development Authority (IHCDA).

- Services for Indiana's aging population under FSSA's Division of Disabilities, Rehabilitative Services (DDARS), were moved to a newly created Division of Aging within FSSA.

However, the new administration knew that more than just structural modifications to FSSA needed to occur for the agency to most appropriately serve its vulnerable populations and be a good steward of taxpayer dollars. In the late 1990s and early 2000s, the decline of Indiana's economy, coupled with the State's failure to fully implement welfare reform, led to more Hoosiers in poverty and more citizens enrolled in public assistance. Between 2000 and 2004, Indiana was one of only four states to see an increase in welfare rolls. The number of households receiving TANF grew from 36,000 in January 2000 to nearly 51,000 in July 2005, peaking at 56,000 in January 2003. In September 2005, 564,000 individuals – more than 9 percent of Hoosiers – were receiving food stamps. This was an 11 percent increase over September 2004.

In 2005, largely in response to increasing public assistance rolls, high error rates, waste, pending lawsuits, fraud and abuse, FSSA began to explore ways to improve the eligibility application process for public assistance and welfare programs. FSSA developed the general traits necessary to modernize and improve the application system to ensure that eligible Hoosiers receive necessary services, as well as good customer service from the state. In addition, FSSA has emphasized the importance of assisting Hoosiers in moving off welfare and into self-sufficiency and work opportunities.

Through the pending modernization project, FSSA has a unique opportunity to improve the application process for Hoosiers most in need. Through utilizing modern business practices, up-to-date technology, and internal and external expertise, FSSA aims to bring better service to the State's most vulnerable populations and exercise prudence when spending taxpayer dollars.

VISION, MISSION AND GOALS

VISION

The vision of the Family and Social Services Administration is, "To lead the future of health care in Indiana by being the most effective health and human services agency in the nation."

SCOPE OF SERVICES

FSSA spends more than $6.55 billion to serve more than 1 million Hoosiers every year. Since FSSA provides very limited direct patient care, approximately 92 percent of its budget is dedicated to paying for health care and social services for its clients and related functions. As such, FSSA does not deliver health care and human services, rather it is a health care and social services financing organization.

FSSA finances services for:

- Low-income individuals and families
- Senior citizens
- People with mental illness
- People with addictions
- People with physical disabilities
- People with developmental disabilities

MISSION

The mission of FSSA is, "To use common sense compassion to help Hoosiers in need have healthier, more productive lives through developing, managing and financing their health care and human services needs."

GOALS

The FSSA strategic plan (2005) aims to fix broken systems and transform FSSA by establishing four main goals:

- Drive the marketplace to increase health care and social services opportunities
- Implement fiscal and operational discipline
- Integrate and coordinate policy development and service delivery
- Provide the best customer service through consistent, equitable and user-friendly access to services

For a more in-depth look into FSSA's strategic plan, please refer to http://www.in.gov/fssa/pdf/fssatimeline62306.pdf.